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SUBJECT: FTA'S IMPACT ON SMALL AND MEDIUM SIZE BUSINESSES
IN COLOMBIA

REF: BOGOTA 540

11. (U) SUMMARY: Small and medium size enterprises (SME) in Colombia expect to benefit from the U.S.-Colombian Trade Promotion Agreement (CTPA) as it grows the overall economy and increases domestic demand. SMEs will also benefit from cheaper inputs and increased capital investment flows. According to local experts, SMEs have minimal risk of being harmed by increased competition because they primarily operate in non-tradable industries. The Colombian Ministry of Commerce, Industry and Tourism (MOCIT) has identified several new products that have a high potential for successful exportation to the U.S. and is developing strategies for small businesses to access these markets. Similarly, the U.S. Agency for International Development (USAID) has fostered several initiatives to help small businesses seize the opportunities of free trade. END SUMMARY.

SME Profile

12. (U) Colombian law classifies SMEs as having fewer than 200 employees and \$3.3 million in assets. According to the MOCIT, SMEs represent 96% of all business establishments in Colombia and generate 63% of all employment. They also account for 43.5% of imports and 32% of non-traditional exports. As of 2003, there were 47,750 SMEs registered with the Chamber of Commerce.

Ample Opportunity, Minimal Risk

13. (U) Colombia's business sector, including SMEs, continues to boom thanks to reduced violence and economic growth. A recent Cornell University study shows that the survival rate of small ventures in Colombia has doubled since 2001 as entrepreneurs have proven increasingly willing to take risks in Colombia's stabilizing environment. According to Guillermo Perry, director of Fedesarrollo and former chief economist for Latin America and the Caribbean at the World Bank, Colombian SMEs primarily operate in non-tradable industries (construction, retail, transportation, etc.). He sees minimal risk that international competition will harm SMEs, and predicts the firms will likely benefit indirectly from the CTPA in the following ways: 1) their ability to acquire lower cost inputs, machinery and technology; 2) the increase in demand for services provided by SMEs as trade liberalization grows the overall economy; and 3) increase in demand for SME

inputs to larger exporters.

¶4. (U) The MOCIT has identified 590 products that have a high potential for successful export to the U.S. These products and industries come from all regions of Colombia. The majority of products are in the following sectors: machinery and electrical/mechanical equipment; common metals and related products; agricultural products (sugar, palm oil, tobacco, margarine, frozen fruit); clothing (fabric and leather); plastics and rubber; and transportation equipment. While most of the products are produced by non-SME firms, many SMEs contribute inputs or services for these sectors.

Inadequate Infrastructure and Credit Availability Chief Bottlenecks

¶5. (U) Perry suggests that Mexico's experience with NAFTA can inform Colombia's preparation for the CTPA. He explained that while the Mexican economy benefited greatly from NAFTA, the lack of infrastructure and planning caused some communities to be left out. Also, many SMEs failed because they could not get the credit needed to make their operations more competitive and flexible due to the Mexico peso crisis that was not related to NAFTA.

¶6. (U) Both Perry and Norman Correa, President of the Association of Micro, Small and Medium Size Businesses (ACOPMI), stress that the GOC needs to aggressively address Colombia's poor infrastructure (e.g. ports, rail, roads and airports) in a strategic manner so that the entire country

can benefit from trade integration. While the GOC has begun this process (reftel), many local experts worry the long time line needed to complete infrastructure improvements and Colombia's clouded experience with infrastructure development could impede full realization of CTPA benefits for all sectors in the near term.

Smoothing the Transition

¶7. (U) With U.S. assistance, the GOC has begun taking steps to assist SMEs in receiving the training and access to credit necessary to strengthen their operations and enter the export market. Mr. Correa praised the GOC strategy approved in 2007 (CONPES 3484) to overcome weaknesses in businesses by marshaling public and private sector resources to provide microfinance, training, market information, and reduce costs of formalization. Additionally, the Colombian government is reforming the banking and microfinance systems to give small businesses and farmers the transitional support they need to target new markets and respond to market forces.

¶8. (U) The joint USG-GOC Trade Capacity Building Group provides technical support and training activities to help SMEs effectively transition to free trade. The group provides training in international procurement standards/requirements, integration into supply chains, and compliance with critical technical norms/standards. The group, with USAID assistance, also encourages small businesses to attain economies of scale by forming trade associations and alliances with large exporting enterprises. From 2006 - 2010, USAID will spend \$50 million on technical assistance programs to improve competitiveness of small businesses and \$10 million on microfinance activities. These programs lay the technical foundation for SMEs to participate in the international marketplace once the CTPA is approved.

¶9. (U) Correa told EconOff that he was hesitant to predict which industries would benefit most from the CTPA as it would depend on how individual SMEs prepare for and take advantage of opportunities. He stated that the pathway for success would be for SMEs to identify niche markets,

improve operational efficiency, and cooperate with U.S. partners to enter the supply chains of companies sourcing products from Colombia.

Brownfield